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House of Representatives

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INDEPENDENT

May 27, 2003

The Honorable Edward McPherson
Chief Financial Officer
Department of Agriculture
Whitten Building, Room 143 W
14th Street and Independence Avenue, SW
Washington DC 20250

Dear Mr. McPherson:

On Tuesday, June 10, 2003, the House Committee on Government Reform's Subcommittee on Government Efficiency and Financial Management will conduct an oversight hearing on improvements made by agencies in their financial management. I am interested in learning about the management changes made at your department that in turn resulted in the department's first unqualified audit opinion of its financial statements. The hearing will convene at 2:00 p.m. in Room 2154 of the Rayburn House Office Building in Washington, DC. I request that you testify at the hearing.

Your written statement may be of any length; however, your oral presentation should be limited to five minutes. To assist the subcommittee members in preparing for the hearing, please provide an electronic version of your testimony and a brief biography (via electronic mail to amy.laudeman@mail.house.gov) by 12:00 p.m., on Friday, June 6, 2003. In addition, we will need 100 copies of your testimony. Please contact the subcommittee's clerk, Amy Laudeman, at (202) 225-3741 to arrange for delivery of these copies. If you plan to use presentation materials such as PowerPoint demonstrations or charts, please notify Ms. Laudeman as soon as possible so that the necessary arrangements can be made.

Should you have any questions regarding the hearing, please contact Mike Hettinger or Dan Daly of the subcommittee staff, at (202) 225-3741.

Sincerely yours,



Todd Russell Platts, Chairman
Subcommittee on Government Efficiency and
Financial Management

OCFO-03-1346

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Sincerely yours,

Todd Russell Platts, Chairman
Subcommittee on Government Efficiency and
Financial Management

**United States Department of Agriculture
Office of the Chief Financial Officer
Edward R. McPherson, Chief Financial Officer**

Mr. McPherson took office on October 5, 2001, as Chief Financial Officer of the United States Department of Agriculture, following his appointment by President George W. Bush and confirmation by the United States Senate. He is responsible for the financial leadership of an enterprise that, were it in the private sector, would be the sixth largest company in the United States with over 100,00 employees, \$123 billion in assets, and \$70 billion in annual spending. The Department of Agriculture provides \$100 billion of direct loans, \$29 billion of credit guarantees and \$38 billion of re-insurance in support of America's farmers and ranchers. The Department of Agriculture also promotes global trade, protects America's food and water, and conducts massive humanitarian nutrition programs.

Just over a year after Mr. McPherson took office, the Department of Agriculture and all its agencies for the first time ever received a "clean" audit opinion from the Office of the Inspector General for fiscal year 2002. Mr. McPherson is also responsible for the National Finance Center in New Orleans, Louisiana, that administers the world's largest retirement plan with \$100 billion in investments for three million Federal civilians and military personnel and processes payroll for more than 500,000 governmental employees.

Prior to being appointed by President Bush, Mr. McPherson was President of InterSolve Group whose business he founded in 1989 of executing the commercial agenda of chief executive officers by leading high-performing project teams of JUST-IN-TIME-TALENT. He produced compelling results for leaders in large companies such as IBM and General Motors and major entrepreneurs among the *Forbes* 400. InterSolve Group is widely recognized as America's first virtual service company enabling distinctive leaders to create value through high return on investments in human capital, collaborative alliances, and strategic outsourcing.

Mr. McPherson has been called a pioneer by Tom Peters, who featured him in his seminars and book *Crazy Times Call for Crazy Organizations* and newsletter *On Achieving Excellence*. In addition, *Business Week's* cover story on the "Virtual Corporation" in 1993 highlighted Mr. McPherson for earning \$14 million in 90 days for a client by leading project teams from four different companies totaling 26 people, only one of whom he had met before, in restructuring business processes, applying information technology and managing the human side of change.

Mr. McPherson received Special Recognition in 2000 and 1999 for his personal contributions to advancing outsourcing as a means of helping companies improve performance, profitability, and shareholder value as part of the Outsourcing World Achievement Award program conducted by Pricewaterhouse Coopers and the Outsourcing Institute. He was nominated in 2000 for an Entrepreneur of the Year Award in Ernst & Young's Southwestern Region.

With over 30 years experience in leadership, organizational enhancement, business strategy, and corporate finance, Mr. McPherson has served as chief financial officer of two large, active holding companies, including SunAmerica which now has over \$100 billion of mutual funds, annuities, and investment services in Los Angeles as part of American International Group. Earlier, at age 37, he was Chief Financial Officer of First Republic Bank Corporation in Dallas when that had peaks of \$140 million in earnings, \$35 billion in assets, and more than 17,000 people prior to its acquisition by Bank of America.

He has participated in over 25 business acquisitions, issued debt and equity in the domestic and international capital markets, and served as a director of a venture capital fund. During his career, Mr. McPherson received an Award for Excellence from the Financial Analysts Federation in New York City, gained recognition as a management consultant with Booz Allen and Hamilton, and was awarded the Joint Service Commendation Medal as an officer in the United States Navy with the Defense Intelligence Agency.

He graduated from Williams College, has a master's degree from George Washington University, and attended the corporate financial management executive program at Harvard University Graduate School of Business Administration.

Mr. McPherson has served as a trustee of the Hockaday School – the largest private secondary school for girls in the United States – and has addressed numerous business and investor groups such as Merrill Lynch and the Columbia University Graduate School of Business Administration. His insights into the New Economy have appeared in *Fast Company*, *Network World*, and on Reuters.

Raised in Gettysburg, Pennsylvania, Mr. McPherson and his wife Sally have two children: Beth, 28, who teaches in Chicago, and Edward, 26, a writer in New York City. Mr. McPherson is an advocate for the preservation of excellence in academics and amateur athletics, enjoys playing in alumni basketball games, and has completed a marathon race.

STATEMENT OF
EDWARD R. MCPHERSON
CHIEF FINANCIAL OFFICER
UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND
FINANCIAL MANAGEMENT
OF THE
HOUSE COMMITTEE ON GOVERNMENT REFORM

TESTIMONY ON
IMPROVEMENTS MADE BY FEDERAL AGENCIES
IN FINANCIAL MANAGEMENT

June 10, 2003

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to continue to work together on improving financial management in the Federal Government.

My remarks today focus on the two elements specified in your invitation to me to testify today. First, I will describe briefly the valuable results we have achieved at the Department of Agriculture (USDA). Second, I will offer insights for your consideration about the management changes we made that in turn resulted in USDA's first unqualified audit opinion of its financial statements.

I. Valuable Financial Management Results at the Department of Agriculture

As context, at the Department of Agriculture I am responsible for the financial leadership of an enterprise which, were it in the private sector, would be one of the largest companies in the United States. With \$72 billion in annual spending, 112,705 full time equivalent staff years, and \$123 billion in assets, the Department of Agriculture is exceeded generally in size in the private sector by only four companies – General Motors, Ford, Exxon and Wal-Mart – so we are roughly equivalent in size and diversity to lines of business like General Electric or Citigroup.

George Bernard Shaw, the British playwright, believed great innovation starts with an unreasonable person. USDA was fortunate to have such people at the Agriculture Department when I started in October 2001. The result these unreasonable people sought was to have sufficient internal control and data integrity to achieve the first clean, or unqualified, audit opinion ever at Agriculture. In every year since audits began to be conducted in 1991, the Office of the Inspector General was unable to express any opinion on Agriculture's financial statements because the value of assets, liabilities,

budgetary resources, net costs and related items could not be determined. This outcome on an audit is termed a disclaimer. There are four categories of opinions expressed on financial audits – unqualified (clean), qualified, disclaimer, or adverse.

In short, Agriculture, one of the largest enterprises in America, had never produced timely financial statements free of significant errors or misstatements in its entire 140-year history. Just over a year later, in December 2002, Agriculture and all its agencies for the first time received a clean audit opinion from the Office of the Inspector General for fiscal year 2002. This valuable breakthrough was achieved using existing taxpayer funding by skilled career government executives and dedicated associates already in place. All that was needed was a little unreasonableness.

The results that culminated in achieving the goal of sufficient internal control and data integrity to receive a clean audit opinion, included:

- Revamping business, financial management and accounting processes and completing installation of a standard general accounting system requiring 17 major conversions.

Determining the program cost or present-value cash flows of \$100 billion in loans.

Reconciling accurately and in a timely manner more than \$100 billion in annual cash receipts and disbursements in 393 Treasury accounts.

- Intensely and effectively transforming the Forest Service's financial management activities.
- Correcting accounting deficiencies on \$10 billion of real and personal property.

Implementing a unified corporate controller organization that integrates

accountability for financial management processes and systems throughout the Department of Agriculture.

So, one can see massive changes are required to produce real results.

This work is on-going – improvements are a continuous process, not an event. There is always the prospect of unforeseen challenges and additional barriers to overcome.

Once rudimentary foundations are in place, even higher value comes from better management information and decision-making, more informed allocation of resources (as in President Bush's Management Agenda Budget and Performance Integration Initiative), and clearer accountability.

In addition, we also seek more cost-effective financial management and accounting operations over time as processes are further re-engineered and information technology is renovated and integrated.

II. Insights On Management Changes We Made Resulting In USDA's First Unqualified Audit Opinion of Financial Statements.

Four principles guide our actions to create valuable breakthroughs involving massive change. One, we focus on real results - while sound process is important, we are relentless in achieving tangible results. Two, we behave as owners in taking full responsibility to complete any task. Three, we operate at a constructively aggressive pace. Speed is important and usually contributes to better outcomes. Four, we value leadership and talent – individual excellence and collective success are attributes of most successful teams, and talent will out-perform methodology in many “turnaround” situations. Bureaucracies produce results with leaders who instill laser-like

clarity of ownership, or individual accountability, and create change by substituting a value of success in place of rhetoric or business as usual. Immediate modest successes are fabulous substitutes for existing poor practices and give everybody something positive to talk about over the weekend. Leaders who challenge existing settings are simply purveyors of hope. Ultimately, people are the only source of a sustainable competitive advantage—and I believe in people.

Particularly effective in this instance are the leadership and talent of my partners at the Department of Agriculture, including Patricia Healy, deputy chief financial officer; Jesse King, corporate controller; Wendy Snow, associate chief financial officer, financial systems; Joe Marshall, associate chief financial officer, financial policy and planning; John Brewer, associate chief financial officer, financial operations; Jerry Lohfink, acting director, National Finance Center; and numerous outstanding branch managers and associates in our Controller Operations Division in New Orleans.

We all have received excellent support from Secretary Ann Veneman, Agriculture's subcabinet officials, agency administrators and their related finance, accounting and budget staffs, as well as personnel in the Office of the Inspector General. All these "unreasonable" people decided to have sufficient internal control and data integrity to receive the first clean audit opinion on behalf of the American taxpayer as part of President Bush's Management Agenda.